

Promoting the Asian bond market

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Introduction

In dealing with the aftermath of the 1997 Asian financial crisis, many Asian countries came to appreciate just how important it is for economic development and growth to keep their financial system safe and sound. Many of the discussions and debates on the Asian bond market point to the pivotal role that Asia's bond market can play in further enhancing the safety and soundness of the region's financial system. And it is clear that, for Asia's bond market to grow, close cooperation and collaboration among the region's financial regulators will be critical.

There follow some thoughts on recent developments in the Asian bond market, on some of the steps that we can take to further promote its growth, and on the role financial regulators can play in this endeavour.

Recent developments in the Asian bond market

ASEAN+3, APEC, EMEAP and other regional groups have led most of the region-wide efforts to promote the Asian bond market. The member countries of ASEAN+3 adopted the "Chiang Mai Initiative", the first major regional financing agreement, in May 2000. The agreement strongly supports bilateral swap agreements among the member countries to pre-empt liquidity shortages and other significant financial distress in the region. The agreement provided a much needed boost to countries seeking region-wide swap agreements, and as of October 2003 there were 13 swap agreements totalling approximately USD 32.5 billion, or around double the number and amount before the agreement.

Along with these efforts, a number of specific steps designed to expand both demand and supply in the Asian bond market are in the works as a way to further strengthen financial cooperation among the Asian countries. To stimulate demand, EMEAP agreed to launch the Asian Bond Fund (ABF) last year and approximately USD 1 billion is currently managed by the fund. ASEAN+3 adopted the "Asia Bond Market Initiative" last August and has been working on specific proposals to expand supply in the Asian bond market as well. Moreover, efforts are under way to build a framework that can be used to support and stimulate the local bond markets throughout the region and promote cross-border trading of local currency bonds. Various studies on the feasibility of introducing a regional currency are also in the works. Studies on improving the market and institutional infrastructure for Asia's bond markets - such as proposals on pooling the region's corporate bonds and securitising them, harmonising the region's accounting standards, foreign exchange trading, and new settlement systems - are also gaining attention.

For its part, Korea has been taking a number of concrete steps to contribute to the growth of the Asian bond market. First, we are focusing on building an efficient infrastructure for the bond market and improving international harmonisation, while at the same time enhancing the ability of domestic financial institutions to bring greater depth to the bond market. At the same time, we are aggressively moving forward with our efforts to enhance the transparency and efficiency of our financial market and attract leading international financial institutions and organisations to Korea. I would also like to add that we are making a concerted effort to provide support and actively participate in all collective cooperative endeavours throughout Asia to contribute to the success of Asia's bond market.

Where the Asian bond market is headed

Although the depth and maturity of the bond market vary from country to country, and cross-border bond investments remain limited, many expect the Asian bond market to show a much more robust growth in the near future as the region's financial system advances and the local bond markets gain strength. And there is no doubt that working together to promote economic development and prosperity will contribute to the economic and financial stability of the region.

In promoting a vibrant regional bond market, we face a number of challenges that we must overcome. First, we need to take concerted steps to facilitate the development of such key infrastructure and mechanisms as a centralised clearing and settlement system, credit guarantee institutions and credit rating systems in the bond market. As a part of this endeavour, we may need to carefully weigh the merits of coming up with a blueprint for a new architecture aimed at integrating the local markets closer together and improving the overall efficiency of the region's bond market.

Second, the regulatory regime and information systems of each country must continue to improve so as to ensure efficient and transparent cross-border financial transactions. This effort will most likely entail harmonising the region's market systems and regulations through close collaboration and cooperation among the Asian regulators.

Third, securitisation and other structured financing need to be more actively encouraged. Although many Asian countries do utilise asset securitisation and structured financing in their capital markets, only a few of them are at a mature stage. So it will be a worthwhile endeavour to streamline the existing market structures and come up with some form of uniform standards that can be used to further promote the region's securitisation market.

Lastly, the traditional reliance of many of the regional economies on bank-centred financial systems for capital will need to be shifted to the bond market.

The role of the regulators

In order to ensure a sound development of Asia's financial market, the role that the region's regulators play and the efforts they make will be crucial. One of the key tasks they face is to move forward with building an advanced regulatory system so as to eliminate frictions between international standards and the local financial systems. This will mean, among other things, strengthening the existing prudential regulation and supervision to preserve the safety and soundness of local financial institutions and financial markets, and raising accounting, disclosure and governance standards to enhance market transparency and ensure orderly and disciplined market conduct.

Apart from close cooperation and collaboration on harmonising the region's regulatory structures for the bond market, the regulators will need to work on further market opening. An environment must be created that allows foreign financial service providers to enter into the market and to compete freely with others.

Concluding remarks

In the light of the overall situation in Asia, the financial infrastructure and the bond market, it is clear that the challenges lying ahead will not be easy to overcome. One possible approach may be to come up with and implement a step-by-step road map for the pan-Asia bond market based on the development of the local bond markets in the region.

It is also important to bear in mind that, in order for Asia to firmly take its place in the global economy as the most dynamic region in the 21st century, creating and maintaining efficient and cooperative relations will be more important than ever. From this perspective, the recent efforts led by ASEAN+3, APEC and other regional groups to promote an Asian bond market will surely provide a significant impetus for the region's financial market and help it move up to a new level.

Korea will remain an active partner and participant in the drive for a robust, vibrant Asian bond market, and to do its part, the country will forge ahead with the integration and harmonisation of its bond market with the rest of Asia, further develop its market infrastructure, and contribute to the growth and success of the Asian bond market.